

**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT  
IMPROVEMENT PLAN**

**VOLUME I**



---

# VOLUME I

## FINANCIAL MANAGEMENT IMPROVEMENT PLAN (THE PLAN)

### TABLE OF CONTENTS

<b>FOREWORD</b>	i
<b>EXECUTIVE SUMMARY</b>	v
<b>SECTION I - INTRODUCTION</b>	
Document Scope and Objective	I – 1
Focus of the Plan	I – 2
Content of the Plan	I – 3
<b>SECTION II - CONCEPT OF OPERATIONS</b>	
Purpose and Scope	II – 1
Organization	II – 2
Joint Financial Management Improvement Program (JFMIP) Financial Management Requirements	II – 3
Department of Defense (DoD) Financial Management Systems Requirements	II – 5
Introduction	II – 5
DoD's Interaction	II – 6
DoD's Program Management Process	II – 6
DoD's Financial Management Process	II – 7
DoD's Financial Event Process	II – 9
Responsibilities	II – 11
Integrated Approach to Financial Management	II – 12
Internal Controls	II – 13
DoD Policy and Oversight Requirements	II – 15
Introduction	II – 15
Financial Management Policy Development	II – 15
Systems Oversight, Compliance, Definition, Improvements, and Financial Reporting Function	II – 16
Managerial Internal Controls	II – 18

---

---

DoD Infrastructure Requirements	II – 19
Financial Operations Infrastructure	II – 19
Technical Information Infrastructure	II – 20
Internal Controls	II – 26
DoD Integrated Financial Management System	II – 27
Introduction	II – 27
Definition	II – 27

### **SECTION III - CURRENT ENVIRONMENT**

Introduction to the Current Environment	III – 1
Purpose	III – 1
Scope	III – 1
Achievements and Progress to Date	III – 2
DoD Goals	III – 2
Implementing Effective Systems	III – 3
Reengineering Business Processes	III – 6
Improving Financial Management	III – 10
Roles and Responsibilities	III – 15
Purpose	III – 15
Organization and Management	III – 15
DoD Management Oversight Structure	III – 17
Financial Management Structure	III – 20
Operational Structure	III – 20
DoD Components	III – 21
Technical Supporting Structure	III – 22
Financial Management Status	III – 23
Scope	III – 23
Critical Finance and Accounting Systems	III – 23
Critical Feeder Systems	III – 23
Policy and Oversight	III – 24
Infrastructure	III – 25
Implementation Strategies	III – 26

---

---

Remediation Plan Analysis	III – 32
Background	III – 32
Discussion	III – 32
Current Environment Composition	III – 34
Summary	III – 34
Transition to the Integrated Financial Management System	III – 34

## **SECTION IV - TRANSITION PLAN**

Overview	IV – 1
Purpose	IV – 1
Compliance Process	IV – 1
Performance Measurement Methodology Plan (PMMP)	IV – 1
Organization and Scope	IV – 2
Transition Plan Results	IV – 4
Army Status in Achieving Compliant Systems and the Integrated Financial Management System	IV – 5
Introduction	IV – 5
Actions Taken	IV – 5
Conclusion	IV – 6
DoN Status in Achieving Compliant Systems and the Integrated Financial Management System	IV – 7
Introduction	IV – 7
Accomplishments	IV – 7
Nonfinancial Feeder Systems	IV – 7
Finance and Accounting Systems	IV – 10
Internal Controls Business Risk and Process Improvements	IV – 10
Training and Development of the Workforce	IV – 10
Conclusion	IV – 11
Air Force Status in Achieving Compliant Systems and the Integrated Financial Management System	IV – 12
Introduction	IV – 12
Support of Implementation Strategies	IV – 12
Emphasis on Statement of Budgetary Resources	IV – 12

---

---

Achieving Compliant Feeder Systems	IV – 13
Conclusion	IV – 14
DFAS Status in Achieving Compliant Systems and the Integrated Financial Management System	IV – 15
Introduction	IV – 15
DFAS Finance and Accounting Systems Strategy	IV – 15
Future Finance Systems State	IV – 16
Future Accounting Systems State	IV – 17
Systems Compliance Efforts and Future Plans	IV – 18
Financial Management Requirements and Critical Finance and Accounting Systems Functions Matrix	IV – 19
Critical Finance and Accounting Systems	IV – 20
Introduction	IV – 20
General Deficiencies of Critical Finance and Accounting Systems	IV – 20
Finance Systems	
Civilian Pay	IV – 21
Debt Management	IV – 22
Military Pay	IV – 23
Contract/Vendor Pay	IV – 25
Disbursing	IV – 27
Transportation Payment	IV – 28
Travel Payment	IV – 29
Accounting Systems	
Defense Working Capital Funds	IV – 30
General Funds	IV – 35
Security Assistance	IV – 39
Departmental Reporting	IV – 40
Cash Accountability	IV – 42
Other Accounting Functions	IV – 44
Critical Feeder Systems	IV – 45
Introduction	IV – 45
General Deficiencies of Critical Feeder Systems	IV – 45
Acquisition	IV – 46

---

---

Personnel	IV – 49
Cost Management	IV – 52
Property Management	IV – 56
Inventory Management	IV – 61
Policy and Oversight Initiatives	IV – 64
Description	IV – 64
Initiatives	IV – 64
Infrastructure Initiatives	IV – 68
Description	IV – 68
Initiatives	IV – 68
DoD’s Future Integrated Financial Management System Composition	IV – 72
Critical Finance and Accounting Systems	IV – 72
Critical Feeder Systems	IV – 72
Policy and Oversight Initiatives	IV – 72
Infrastructure Initiatives	IV – 72
Details	IV – 72

## **SECTION V - NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR (FY) 2000 SPECIAL INTEREST ITEMS**

Purpose	V – 1
Inventory of Critical Finance, Accounting, and Feeder Systems	V – 2
Major Procurement Actions	V – 3
Financial Management Competency Plan	V – 4
Introduction	V – 4
U.S. Army	V – 4
U.S. Navy and U.S. Marine Corps	V – 5
U.S. Air Force	V – 8
Defense Contract Audit Agency	V – 10
Defense Finance and Accounting Service	V – 10
Defense Information Systems Agency	V – 12
Defense Logistics Agency	V – 12
Defense Threat Reduction Agency	V – 13

---

---

Improvements to the Defense Finance and Accounting Service	V – 14
Introduction	V – 14
Independent Analysis and Reporting	V – 14
Transaction-Driven General Ledgers	V – 15
Integrated Database for Finance and Accounting Functions	V – 15
Automated Cost, Performance, and Output Measures	V – 15
Single, Consistent Set of Policies and Procedures for Financial Transactions	V – 16
Safeguards for Assets	V – 17
Internal Controls	V – 18
Introduction	V – 18
U.S. Army	V – 18
U.S. Navy and U.S. Marine Corps	V – 19
U.S. Air Force	V – 19
Defense Finance and Accounting Service	V – 20
Defense Information Systems Agency	V – 26
Defense Logistics Agency	V – 27
Defense Threat Reduction Agency	V – 27
 <b>APPENDIX A - REGULATORY REQUIREMENTS MATRICES</b>	
“Chief Financial Officers (CFO) Act of 1990” Chief Financial Officers (CFO) Five Year Plan	A – 1
“Federal Financial Management Improvement Act of 1996”	A – 2
“Federal Managers’ Financial Integrity Act of 1982” Statement of Assurance, Section 4	A – 5
“National Defense Authorization Act for Fiscal Year 2000”	A – 8
 <b>APPENDIX B - STATEMENT ON FINANCIAL MANAGEMENT SYSTEMS COMPLIANCE</b>	
General	B – 1
FY 2000 Critical Financial Management Systems Inventory	B – 2
Critical Finance Systems	B – 3
Critical Accounting Systems	B – 4

---



Critical Feeder Systems	B – 6
Department of the Army	B – 6
Department of the Navy (Navy and Marine Corps)	B – 6
Department of the Air Force	B – 7
Defense Agencies/DoD Field Activities	B – 8

## **APPENDIX C - FISCAL YEAR 2000 FINANCIAL MANAGEMENT SYSTEMS INITIATIVES**

Critical Finance Systems Initiatives	C – 1
Critical Accounting Systems Initiatives	C – 2
Critical Feeder Systems Initiatives	C – 3

## **APPENDIX D - ACRONYMS**



# **FOREWORD**



---

## FOREWORD

Background	<p>This is the third annual edition of the Department of Defense (the DoD) <u>Financial Management Improvement Plan</u> (the Plan). First published in 1998, this year's Plan reflects the continued commitment of the DoD's senior managers to enhance the DoD's financial management operations, systems, controls, and processes. While significant progress and improvements have been achieved in the DoD's financial management operations over the past several years, as this Plan conveys, much more work remains to be accomplished before the DoD can claim a state-of-the-art integrated financial management system.</p>
Legislation	<p>Substantially enhancing federal agencies' financial management operations and systems was a major emphasis of the Congress during the decade of the 1990s. To this end, the Congress passed a number of important pieces of legislation to address government-wide financial management. The first principal law enacted by the Congress was the "Chief Financial Officers (CFO) Act of 1990." This legislation established CFO positions in each of the major departments and agencies and mandated, among other things, that federal agencies significantly improve their financial management systems and operations. In 1994, the Congress passed the "Government Management Reform Act," which mandated that all CFO Act agencies prepare and have audited annual financial statements. In 1996, the Congress passed the "Federal Financial Management Improvement Act," which required federal agency financial management systems to comply substantially with federal financial management systems requirements and federal accounting standards and to implement the United States Government Standard General Ledger (USGSGL) at the transaction level.</p> <p>Each of those laws had pronounced impacts on the DoD, stipulating various systemic, operational, and reporting requirements to be met. With the passage of the "Fiscal Year 1998 National Defense Authorization Act," the Congress mandated that the DoD biennially submit a Financial Management Improvement Plan, beginning in 1998. Recognizing that there were various legislated annual financial management reporting requirements, the DoD consolidated these several reporting requirements into its <u>Financial Management Improvement Plan</u> and chose to publish the Plan every year, rather than every other year.</p>
The FY 2000 Plan	<p>The FY 2000 Plan reports a great deal of information regarding the DoD's future financial management operations, including ongoing and planned major enhancements to operating systems and infrastructures. The Plan conveys the current status of the DoD's financial management and challenges facing the DoD's financial management community. It presents the DoD's high-level Concept of Operations, which guides management's initiatives and efforts in designing, developing and implementing an</p>

integrated financial management system. The Plan also presents the DoD's approach to transition from the current state of many stand-alone financial systems to substantially fewer systems that are linked together electronically and comply with various federal requirements.

The Plan also describes all major financial systems initiatives currently underway and planned for the next several years within the DoD. The DoD Components have committed substantial resources to eliminate many deficient systems and consolidate necessary financial functions into fewer, more efficient, and more reliable systems. Of particular importance, the Military Departments and a number of the Defense Agencies have embarked on major efforts to improve substantially the capabilities of their critical program systems (such as acquisition, inventory management, and property management systems). These program systems, commonly called "feeder systems" within the DoD, transmit substantial amounts of data to the DoD's financial systems and are crucial to the DoD's overall efforts to enhance financial management and eventually obtain favorable audit opinions on the DoD's annual financial statements.

#### Conclusion

As conveyed with this Plan, the DoD is committed to achieving the financial management goals stipulated by the Congress in the financial and management improvement legislation passed over the past decade. Resolving the DoD's financial management weaknesses is not a short-term endeavor, but, through the continued actions of the DoD's program and financial managers, the DoD's senior managers are confident that the DoD's goals will be accomplished.

---

# **EXECUTIVE SUMMARY**





## EXECUTIVE SUMMARY

### Background

The 2000 Financial Management Improvement Plan (the Plan) is a single, integrated document that incorporates several congressionally mandated plans and reporting requirements. Principal among these are the:

- Biennial Financial Management Improvement Plan - FY 1998 National Defense Authorization Act, required to be submitted biennially starting in 1998, and as amended by the FY 2000 National Defense Authorization Act
- Chief Financial Officers (CFO) Financial Management Five Year Plan, required by the CFO Act of 1990
- Remediation Plan – “Federal Financial Management Improvement Act of 1996” (FFMIA)
- Statement of Assurance, Section 4 – “Federal Managers’ Financial Integrity Act of 1982” (FMFIA).

The primary focus of this year’s Plan is the reported overall compliance status of the Department of Defense’s (the DoD’s) critical finance, accounting, and feeder systems and to describe steps necessary to bring these systems into compliance with federal financial management requirements. The Plan describes the DoD’s target architecture and current environment. It also presents an overview of recent financial management reforms, and the transition of the current DoD financial management environment to the future environment.

---

### Concept of Operations (Concept)

The National Defense Authorization Act for 1998 directed the DoD to develop a biennial strategic financial management improvement plan. The Plan includes a Concept of Operations detailing how future financial management will be conducted. The Concept describes how the DoD plans to structure and manage its future financial operations to comply with legislative and regulatory requirements.

The Concept addresses almost all aspects of the DoD’s financial management operations, including the feeder systems that provide the majority of the data used by the DoD’s finance and accounting systems. The Concept also discusses systemic interrelationships and financial management responsibilities for the following organizations:

- The Office of the Under Secretary of Defense (Comptroller) (OUSD(C))
- The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD(AT&L))
- The Office of the Under Secretary of Defense (Personnel & Readiness) (OUSD(P&R))

- 
- The Military Departments (the Army, the Navy, and the Air Force)
  - The Defense Finance and Accounting Service (DFAS)
  - Other Defense Agencies and Field Activities (e.g., the Defense Logistics Agency and the Defense Information System Agency).

The Concept describes the framework the DoD intends to establish for sound financial management operations.

- The section on the Joint Financial Management Improvement Plan (JFMIP) briefly explains the JFMIP financial management requirements and the two processes, program delivery/financing and financial event processing, and the mechanisms supporting those processes that pertain to the DoD.
  - The section on the DoD Financial Management Systems describes the DoD's three financial management processes--program management, financial management, and financial event--and the mechanisms and supporting functions that support those processes. This section describes how the DoD's financial management processes, mechanisms, and functions are derived from the applicable JFMIP processes and mechanisms mentioned. The section also describes the interaction of the DoD's five financial management mechanisms and their corresponding functions. The section ends with a brief description of (1) financial management systems internal controls requirements and (2) how external financial guidance and assistance affects the DoD's financial management systems.
  - The section on policy and oversight describes the financial management policy and oversight roles and relationships of the organizations within the DoD financial management community.
  - The infrastructure section describes projected resources that are needed to support the finance and accounting function. It discusses the location, human resources, internal controls, and technical infrastructure needed to support finance and accounting operations. The technical structure is based on the use of current technology (i.e., a corporate database and data warehousing) to support the vast amounts of financial management data generated within the DoD.
  - The integrated financial management section identifies and explains the DoD's integrated financial management system. The section builds upon the information reported in the other sections of the Concept and offers the DoD's end state.
-

**Current Environment**

The Current Environment section of the Plan reports on the progress to date in achieving the DoD's financial management goals and milestones, discusses the DoD's current roles and responsibilities, and describes the DoD's financial management organizations. The section also notes the DoD's current financial management status and identifies areas requiring improvement.

During 1998, the DoD took a comprehensive look at its financial management operations and, for the first time, articulated its concept for future operations. During 1999, the target architecture was expanded to embrace an integrated financial management system for which the DoD established a baseline of critical finance, accounting, and feeder systems. In 2000, the DoD developed its Financial and Feeder Systems Compliance Process to oversee and monitor actions underway or needed to better ensure that its critical finance, accounting, and feeder systems meet federal financial management requirements.

Financial management in the DoD is an ongoing process/endeavor designed to fulfill the needs of its leaders, meet statutory requirements, maximize efficiency, and minimize fraud. The DoD is in the midst of the most comprehensive reform of financial management systems and practices in its history. There have been many notable successes. Financial operations have been consolidated, the number of noncompliant critical finance, accounting, and feeder systems have been significantly reduced, standard systems have been designated, ambitious deployment schedules have been established and implemented, and business practices have been reengineered to adopt best practices from both the private and public sectors. But progress has been slow in some areas. It is impossible to reverse decades old problems overnight and some reforms will require several years.

---

**Transition Plan**

The Transition Plan demonstrates how the DoD is moving from its current state of financial management operations, as described in the Current Environment section of the Plan, to the target architecture of an integrated financial management system, as described in the Concept.

The Transition Plan identifies the improvements required to bridge the gap between the current and future environments and incorporates the associated plans and initiatives. It includes goals and strategies, consolidation diagrams, and organizational infrastructure changes necessary to transition the DoD to the target environment.

- 
- The Overview section of the Transition Plan briefly discusses the DoD's Financial and Feeder Systems Compliance Process and the DoD's Performance Measurement Methodology Plan.
  - Subsequent sections summarize the efforts by the DoD Components to achieve compliant critical finance, accounting, and feeder systems and ultimately to achieve the target architecture of an integrated financial management system.
  - The Critical Finance, Accounting, and Feeder Systems sections outline the functions that are performed by the DoD's critical finance, accounting, and feeder systems. For each function, the following is provided:
    - A brief description
    - Identification of the critical non-legacy systems
    - Reported compliance status of each critical non-legacy system
    - Identification of critical legacy systems
    - System consolidation figures.
  - The Policy and Oversight and Infrastructure sections briefly summarize the DoD's financial management policy oversight roles and relationships initiatives, and its financial management operational infrastructure initiatives.
  - The final section of the Transition Plan summarizes efforts underway to achieve the DoD's future integrated financial management system.
- 

**Conclusion**

The Plan is a synopsis of the breadth and scope of the financial improvement initiatives that the DoD is undertaking to achieve financial compliance. The target architecture, i.e., how the DoD intends to manage its future financial management operations, is specified together with the current status and those actions being taken to transition to the DoD's targeted integrated financial management system.

---

# **SECTION I**

# **INTRODUCTION**



---

## INTRODUCTION

### **Document Scope and Objective**

This third annual Department of Defense (DoD) Financial Management Improvement Plan (the Plan) presents overall goals, approaches, and major initiatives underway to significantly update the DoD's financial management operations, systems, and processes. Over the last several years, the DoD has made important strides to improve its financial management operations and produce more reliable financial statements. This Plan continues ongoing initiatives and specifies additional actions underway to improve the DoD's financial management.

Enactment of the "Chief Financial Officers (CFO) Act of 1990" ushered in a new era in financial management for federal agencies. The Act established CFO positions in the major federal agencies, including the DoD, and mandated that the agencies implement integrated financial management systems. In 1996, the Congress passed the "Federal Financial Management Improvement Act" (FFMIA), which directed that each agency implement and maintain financial management systems that comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USGSGL) at the transaction level. Compliance with the above standards is generally referred to within the DoD as "CFO compliance." Subsequent related legislation imposed additional reporting requirements on the DoD and has had a profound impact.

The DoD has consolidated into this Plan a number of congressionally mandated plans and reporting requirements related to improving financial management. Principal among these are:

- The Biennial Financial Management Improvement Plan, mandated by the Fiscal Year (FY) 1998 National Defense Authorization Act as amended by the FY 2000 National Defense Authorization Act. This document presents the DoD's plans for improving its financial management and complying with federal requirements and is required to be submitted biennially starting in 1998.
- The Remediation Plan, mandated by the FFMIA and required to be submitted annually. The Remediation Plan describes actions to be taken by the DoD to bring its financial management systems into compliance with federal requirements.
- The CFO Financial Management Five-Year Plan, mandated by the CFO Act and required to be submitted annually. This plan includes actions to be undertaken during the forthcoming 5-year period to improve the DoD's financial management.

- The Statement of Assurance (for financial management systems), mandated by Section 4 of the “Federal Managers’ Financial Integrity Act of 1982” (FMFIA) and required to be submitted annually. The Statement of Assurance reports on the DoD’s compliance with federal financial management systems requirements.

The Remediation Plan, the CFO 5-Year Plan, and the Statement of Assurance are government-wide requirements, whereas the Biennial Financial Management Improvement Plan is a DoD specific requirement. Taken as a whole, these mandated plans and reports contain duplicative requirements. Consequently, the DoD has consolidated these requirements into this Plan, thereby greatly improving the reported information and fulfilling the underlying purposes of the various legislated requirements.

Within the DoD, the Under Secretary of Defense (Comptroller) (USD(C)) serves as the DoD’s CFO and has overall responsibility for this Plan. While the USD(C) has overall Plan responsibility, many of the actions and initiatives identified within the Plan actually are carried out by various departmental offices and the DoD Components. Accordingly, the Plan contains detailed input from the following DoD organizations:

- The Office of the Under Secretary of Defense (Comptroller) (OUSD(C))
- The Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD(AT&L))
- The Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R))
- The Military Departments (the Army, the Navy, and the Air Force)
- The Defense Finance and Accounting Service (DFAS)
- Other Defense Agencies and Field Activities (such as the Defense Logistics Agency and the Defense Information Systems Agency).

---

**Focus of the Plan**

Over the past decade or so, the DoD audit community and others have criticized the DoD for the state of its financial management, including its policies and procedures, financial and financially related systems, and internal controls. This Plan addresses the major elements of the DoD’s financial management. Included are discussions and initiatives related to standardizing and improving the DoD’s financial management regulations, guidance, processes, internal controls, financial management personnel capabilities, and systems. A great deal of information is provided in the Plan related to improving the DoD’s many financial and financially related systems and operations.

For the most part, the DoD’s financial systems were developed and implemented prior to the establishment of the legislatively mandated



requirements of the 1990s. Therefore, the systems do not always comply with federal financial management systems requirements. The DoD has recognized that meaningful and lasting enhancements to its financial management operations rest, by and large, on transitioning to a limited number of improved systems. As conveyed within this Plan, the DoD has initiated major efforts aimed at bringing its financial management systems into compliance with applicable requirements. In short, viable systems solutions are a significant facet of the DoD's financial management improvement initiative.

Federal agencies' financial management systems are to comply with a myriad of requirements stipulated in law and promulgated in various regulatory guides. The CFO Act requires federal agencies to develop and maintain integrated financial management systems. The FFMIA requires, among other things, that agencies' financial management systems comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the USGSL at the transaction level. (The DoD generally refers to these three bodies of systems requirements as "Federal Financial Management Requirements.")

The Office of Management and Budget (OMB), the Department of the Treasury, and the General Accounting Office (GAO)--collectively referred to as the "central agencies"--primarily are responsible for issuing federal financial management systems requirements. The OMB publishes federal accounting standards that have been recommended by the Federal Accounting Standards Advisory Board (FASAB) and adopted by the central agencies for government-wide implementation. The OMB, through the OMB Circular A-127, Financial Management Systems, promulgates financial management systems requirements. This circular incorporates by reference various other requirements, particularly systems requirements published by the Joint Financial Management Improvement Program (JFMIP). The Treasury Department's Financial Management Service maintains and publishes the USGSL and related guidance, as well as fiscal requirements to be satisfied by federal agencies. The GAO publishes internal control standards and selected systems requirement checklists.

---

**Content of the Plan**

Due to the amount of information and data contained in this Plan, it is organized into two volumes. Volume I presents high-level information about the DoD's overall financial management operations. This volume also presents the DoD's Concept of Operations (Concept) for financial management. The Concept lays out the DoD's vision for its future financial management operations, including planned systems configurations, infrastructures, and architectures. Volume I also presents a synopsis and description of the current state of financial management within the DoD,

including the status of ongoing initiatives. Volume I also contains the high-level plan describing how the DoD will transition from its current state of financial management to the eventual “end state” envisioned in the Concept. The volume addresses five items of special interest for which the Congress requested information in the National Defense Authorization Act for FY 2000. This volume concludes with several appendices that present specific information related to:

- Regulatory requirements affecting the DoD’s financial management (Appendix A)
- The DoD’s FY 2000 Statement of Assurance on its financial management systems compliance and its inventory of critical financial management systems (Appendix B)
- The DoD’s critical financial management systems initiatives (Appendix C)
- Acronyms used throughout Volumes I and II (Appendix D).

Volume II presents detailed information on the DoD’s numerous improvement initiatives for financial management systems, policy and oversight, and infrastructure.

---